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SENSITIVE
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DEPARTMENT FOR NEA/ARP

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TAGS: EFIN ECON EINV KU
SUBJECT: AMIRI ECONOMIC ADVISOR ON ECONOMIC REFORM

¶1. (U) Summary: Dr. Yousef Al-Ebraheem told a mixed Kuwaiti-expatriate audience on April 22 that the global economic crisis had hit the GCC's oil exports and foreign assets hard, but that he was confident the countries were well placed to recover relatively quickly. He praised the GoK's financial stability decree, but noted it was insufficient to promote recovery. Dr. Ebraheem called for further government development and infrastructure spending, especially for smaller projects that would have a more positive impact on the local economy. He also stressed the need for extensive economic and regulatory reform to help transform the Kuwaiti economy. End Summary.

Impact of the Crisis

¶2. (U) On April 22, Dr. Yousef Al-Ebraheem, Economic Advisor to the Amiri Diwan, told listeners at the Advocates for Western Arab Relations (AWARE) Center that the global economic crisis had hit GCC oil exports and foreign investments of the sovereign wealth funds hard. In addition, GCC stock markets and real estate markets were under pressure and private sector economic activity (highly dependent on government spending) was slowing down across the GCC. The private sector slowdown translated into sharp drops in expatriate labor as well as some increases in unemployment for nationals. The drop in expatriate labor would have a "knock-on" effect on other sectors of the local economy, especially on the retail sector. Facing budget constraints, most GCC governments (with Saudi Arabia a notable exception) were cancelling or delaying "major projects like K-Dow." On the positive side, he noted, inflation was likely to decline across the region. That said, he noted, Kuwait and the broader GCC were well placed to recover relatively quickly from the crisis, given their large currency reserves and high levels of government employment. In Kuwait, he noted, "90% of Kuwaitis work for the government, and I assure you that the government can pay salaries."

Government Response

¶3. (U) Dr. Ebraheem briefly discussed the GoK's economic stability law, passed by emergency decree, which he said was necessary but not sufficient. Noting that Kuwait needed to enact a series of reforms to meet the Amir's goal of transforming the country into a regional financial and commercial center, he said "sometimes it is easier to implement changes during tough times."

-- Fiscal Stimulus - Dr. Ebraheem argued that the GoK needed to increase its investment spending and needed to emphasize small/medium sized projects rather than mega projects. He noted that the smaller projects were more likely to benefit the local economy, since the larger development projects -- by necessity -- would be foreign run, which would disburse more of the fiscal stimulus outside Kuwait. In response to a

question about the planned cuts in expenditures for the FY 2009/10 budget particularly in construction expenditures, he said he fully expected several major projects to be tendered in the June/July timeframe, including: Shaykh Jaber bridge, phase 2 of the 1st Ring road, the design for the 8th Ring road, and the re-tendering of the Shaykh Jaber hospital. He stressed, however that the capital spending needed to benefit the entire economy, not just certain sectors

-- Monetary Policy - He suggested that Kuwait's Central Bank needed to continue to gradually and cautiously reduce its discount rate over the next six months from its current rate of 3.5%. (Note: The Central Bank has cut the rate three times since October 2008 by 75 basis points. End note.)

-- New funds - He suggested that the GoK create a new fund to finance small and medium enterprises to encourage the private sector. In addition the GoK needed to revise the regulations for the Industrial Bank of Kuwait to encourage new businesses.

-- Public private partnerships - The current BOT law has "shortcomings" and the GoK needs to encourage public private partnerships especially in the areas of water, electricity, and housing.

-- Regulatory reform - In order to fulfill the Amir's vision of a regional financial and commercial center, Kuwait needed to reform its regulatory structure. It needed to establish a telecommunications regulatory authority, a capital markets authority, and a transportation/port authority. Although the financial stability law took some steps to support commercial

reform (by permitting the creation of convertible bonds and preferred stocks) the commercial law needs to be updated.

-- Land management - Dr. Ebraheem argued that Kuwaitis could not create economic activity without land and the government currently owned over 90% of the land. Fixing this problem would be critical.

-- Increase electricity pricing - Dr. Ebraheem stressed that Kuwaitis needed to develop their energy conservation consciousness, arguing that the oil used to generate electricity represented forgone income for Kuwait. He commended the Ministry of electricity and Water's efforts to increase awareness, but commented that the only way to change behavior would be to increase pricing from the current rate of 2 fils per kilowatt hour (3/4 of a cent). He noted that the subsidy for the neediest Kuwaitis could be maintained via a tiered pricing structure that would increase pricing depending on usage.

Comment

¶4. (SBU) Although many of Dr. Ebraheem's points have been made in public or private by other GoK officials (the Central Bank Governor has frequently called for fiscal stimulus, for example), this is a comprehensive and open compilation of the reforms the GoK needs to take, especially coming from the Amir's personal economic advisor. It would be a bit too much like "Kremlin watching" to take Dr. Ebraheem's public remarks as a definitive road map. It is reasonable to presume, however, that all these factors are being considered. Notably absent in this discussion of needed reform were the political steps needed to bring a fractious National Assembly on board and to mobilize the GoK to act. End Comment.

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